S. H. KRESS and Company

1958 Annual Report

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S. H. KRESS and Company

Financial Highlights

	1958	1957
Sales	$159,357,226	$158,570,785
Employees' compensation and benefits	$ 35,211,512	$ 34,197,989
Federal, state and local taxes	$ 8,870,021	$ 11,812,785
Net Income	$ 4,818,223	$ 7,130,343
Number of stores	262	261
Average sales per store	$ 608,234	$ 607,551
Capital additions	$ 6,872,202	$ 10,919,817
Depreciation and amortization	$ 3,563,043	$ 3,168,457
Stockholders' equity	$104,292,440	$104,232,736
Net Income per dollar of sales	3.0¢	4.5¢
Net Income per dollar of stockholders' equity	4.6¢	6.8¢
Net Income per share	$ 2.03	$ 3.00
Federal, state and local taxes per share	$ 3.72	$ 4.97
Dividends per share	$ 2.00	$ 2.00
Stockholders' equity per share	$43.90	$43.87

S. H. KRESS and Company

Board of Directors

Rush H. Kress

Rush H. Kress, *Honorary Chairman*

Joined S. H. Kress and Company in 1900; became Treasurer in 1907; Vice President, 1919; President, 1941; Vice Chairman, 1945; Chairman, 1955; Honorary Chairman, 1958. President and Trustee, Samuel H. Kress Foundation. Trustee, National Gallery of Art, Washington, D. C., Trustee, New York University-Bellevue Medical Center. Honorary Trustee, Bucknell University.

Paul L. Troast

Paul L. Troast, *Chairman of the Board*

President, Mahony-Troast Construction Co., Clifton and Camden, N. J. Former Chairman, New Jersey Turnpike Authority. Director, New Jersey Bank and Trust Company. Vice President, New Jersey Manufacturers Association. Vice Chairman, New Jersey Manufacturers Casualty Insurance Co. Vice Chairman, New Jersey Manufacturers Indemnity Insurance Co. Trustee, Samuel H. Kress Foundation, and Bucknell University. Recipient of two honorary degrees. Licensed Professional Engineer in New Jersey.

Frank M. Folsom

Frank M. Folsom, *Chairman, Executive Committee*

Began long retailing career in Portland, Oregon, in 1910. Among many retail positions, was formerly Vice President in Charge of Merchandising and Director, Montgomery Ward & Company, Chicago. In Washington from 1940-1943, was Assistant Coordinator of Purchases, National Defense Advisory Commission; Deputy Director of Purchases, Office of Production Management; Special Assistant to Under-Secretary of the Navy and first Chief of Procurement Branch, Office of Procurement and Material, Navy Department. In 1943, became Director of Radio Corporation of America, and President in 1949; currently Chairman of the Executive Committee of the Board of Directors, R. C. A. Director of 14 corporations and various civic and philanthropic organizations. Recipient of honorary degrees from six colleges and universities. Permanent Representative of the State of Vatican City to the International Atomic Energy Agency. Trustee, Samuel H. Kress Foundation.

George L. Cobb

George L. Cobb, *President*

Graduate of University of Maine. Entered retail merchandising with Montgomery Ward & Company, rising from Assistant Store Manager to Regional Catalogue Order Manager in New York. Joined W. T. Grant Company as District Manager for Connecticut-Westchester Area; became successively Regional Operating Manager, Eastern Regional Merchandise Manager, Assistant Regional Manager of Eastern Region, and finally Store Planning Director. In 1955, became President of Zeller's Limited (Canadian affiliate of W. T. Grant Co.). In 1958, elected President of S. H. Kress and Company.

Stanley C. Hope

Entire business career connected with Standard Oil Company (N.J.) and its affiliates. Spent eight years in Europe modernizing distribution of gasoline to the bulk system. During World War II was President of the Gilbert & Barker Manufacturing Co. (a Standard Oil affiliate) producing artillery components for Army and Navy. Received citation from Ordnance Department. In 1948, became Executive Vice President of Esso Standard Oil Company and 15 months later, President. Retired from petroleum business in 1958. Currently is President of Soundscriber Corporation and Director of the Gamewell Co. He is a Director of Williamsburg Restoration, Inc., President of National Association of Manufacturers, and Chairman, Automotive Safety Foundation.

Stanley C. Hope

Kenneth E. Richards

After graduating from Wesleyan, entered the Army as a private in 1940, attending first Officer Candidate School, Medical Administrative Corps. Served abroad as Medical Supply Officer for First U. S. Army. Discharged with rank of Lieutenant Colonel. Began his merchandising career in 1945 with J. C. Penney Co. in their Home Furnishings Department. Later became a Buyer of Piece Goods and then Department Head of Women's and Girls' Sportswear. Currently, Vice President-Merchandising, with S. H. Kress and Company.

Kenneth E. Richards

William B. Sutherland

Joined S. H. Kress and Company as Management Trainee in 1924 in Birmingham, Ala. Became Store Manager in La Grange, Ga., 1925. Called to New York Office as a Buyer in 1934. Returned to Store Operations, managing stores at Knoxville, El Paso, and Fifth Avenue, New York. Later became a Senior Merchandise Man in New York Office and then Eastern Regional Manager. Elected a Vice President and Director in 1955.

William B. Sutherland

Stanley F. Teele

Graduate of Amherst College; graduate work at Harvard University. Honorary degrees from Amherst, University of Pennsylvania and University of Western Ontario. Joined Harvard University Graduate School of Business Administration in 1935 as Assistant Professor of Business Administration. Became Dean of Faculty of Business Administration, and George Fisher Baker Professor of Administration, 1955. Trustee of George Putnam Fund of Boston and Newton Savings Bank. Director of Cambridge Trust Company, Allegheny Ludlum Steel Corporation, General Foods Corporation, Equitable Life Assurance Society of the U. S., and Harvard Cooperative Society. Has served the Government in various capacities as a Consultant and Board Member. Past President of American Association of Collegiate Schools of Business. Trustee of Amherst College. Author of various books on retailing.

Stanley F. Teele

Victor D. Ziminsky

Began his long retailing career at E. T. Slattery Co., Boston. Held executive positions at Franklin Simon & Co., Bloomingdale's, and then became Merchandise Manager of Gimbel's. For ten years was President of the Union News Co. Currently is President of Victor D. Ziminsky Co., Inc. Director of Coca Cola Bottling Co. of New York, Inc., New York Savings Bank, and other corporations. Member of Advisory Council of College of Commerce of University of Notre Dame, and Board of Assoc. Lay Trustees of Holy Cross College. Active in various civic organizations. Recipient of three honorary degrees.

Victor D. Ziminsky

S. H. KRESS and Company

Officers

RUSH H. KRESS	*Honorary Chairman of the Board*
PAUL L. TROAST	*Chairman of the Board*
GEORGE L. COBB	*President*
WILSON H. FORBES	*Vice President-Store Development*
WILLIAM B. JORDAN III	*Vice President-Finance and Administration*
GLENN E. MASSNICK	*Vice President-Real Estate*
KENNETH E. RICHARDS	*Vice President-Merchandising*
WILLIAM B. SUTHERLAND	*Vice President-Store Operations*
DAVID C. WELLS	*Controller*
LEONARD K. GUILER	*Treasurer*
CHARLES F. DONNELLY	*Secretary and Corporation Counsel*
KARL H. HELFRICH	*Director of Public Relations and Assistant Secretary*
WALTER M. WEAVER	*Assistant Treasurer*

TRANSFER AGENT	*Bankers Trust Company, New York, N. Y.*
REGISTRAR	*Chemical Corn Exchange Bank, New York, N. Y.*

Annual Meeting of Stockholders	*Tuesday, May 19, 1959, 11:30 A. M.* *West Ballroom, Hotel Commodore, New York City*

Company Stores

Alabama	13	Kansas	13	Ohio	1
Arizona	5	Kentucky	3	Oklahoma	15
Arkansas	6	Louisiana	6	Oregon	2
California	43	Mississippi	8	Pennsylvania	1
Colorado	7	Missouri	5	South Carolina	9
Florida	14	Montana	2	Tennessee	9
Georgia	14	New Jersey	2	Texas	38
Hawaii	4	New Mexico	2	Utah	3
Idaho	3	New York	5	Virginia	1
Illinois	2	North Carolina	14	Washington	12

Total 262

A Review of 1958

The 1958 report of operations of the Company, when considered from a purely financial analysis, is not a good one. It reflects the operations of the former Management for the period of January 1st through March 11th, temporary Management from that date until mid-June, and new leadership for the remaining months of the year. It also reflects certain costs which are inherent in a change of Management.

We inherited a company with sales dropping at an alarming rate over an extended five-year period. The cash resources were sadly depleted by capital expenditures on new stores and renovations which were not contributing to sales and profit performance. The physical volume of inventory was much too high and the merchandising policy was adversely affecting Company sales.

The Company reflected the previous absence of outside direction and advisors on its Board. The Board has been increased to nine members to provide for a proper balance between Management and outside directors.

A Management survey, authorized by the new Board, pointed up many shortcomings and made suggestions for correction and future objectives. Many of these recommendations, some in modified form, have already been made a part of the new Management's program.

The 1958 sales were lower than the previous year by $5,000,000 as of May 10th. We reversed this trend and recouped this amount during the remaining seven and one-half months, closing the year with a sales gain, the first in six years. Net income for the year was equal to $2.03 per share.

A capital expenditure program for the year was cut back from $20,463,000 to approximately $7,000,000. Much of that remaining was carryover from the previous year and projects which were already in the construction stage.

Immediate goals were set for the reduction of the inventory and the implementation of a new merchandising policy. One result was an inventory reduction of $3,000,000. We have been able to keep our cash position close to the 1957 level.

The Company owns some real estate not required for store operations and part of this has already been sold. We have listed the balance of this real estate for sale and have also compiled a list of unprofitable stores to be closed. The new Board has approved 23 locations for new stores, 19 of which will be in shopping centers. We are convinced of the merits of shopping centers and recognize the vital changes taking place in aggressive merchandising.

The unprofitable operations referred to, the added overhead costs brought about by the failure of the capital expenditure program to add to profits, and the increased interest charges on borrowed working capital necessary for current operating purposes have all contributed to this year's unsatisfactory performance.

Looking ahead, 1959 will be a challenging year for your new Board of Directors, seven of whom have been elected since March 1958, and for the aggressive, capable and imaginative Management team assembled during the past year.

We have approximately 15,500 permanent Employees in the field and at our Main Office, who have contributed to the high standing which the Company had attained in the past. They have merited the support of Stockholders, the Board and the Management. They are also entitled to more efficient and more enlightened leadership. We solicit their continued support in this challenging year ahead.

Financing during 1959 will not be a major problem, but the Company is formulating future financing plans which will be necessitated by capital expenditures in subsequent years.

Your Board and your Management, with their experience and background in merchandising and other phases of retail operations, are confident they can make S. H. Kress and Company the leader in its field.

Paul L. Troast

Chairman of the Board

Plans for the Future

Upon assuming my responsibilities as President of S. H. Kress and Company it was evident that the most urgent and immediate need was to develop an efficient, aggressive management team, covering each one of the Company's major functions. It was fundamental, as a principle of sound management, that to successfully compete in our industry and regain the leading position we once enjoyed we would have to readjust our pattern of executive direction and add new responsibilities of planning and administration.

We have secured capable and experienced executives to supplement our managerial strength. Other key personnel have been promoted from within our own Company.

Our entire organization has been provided with definite statements of our Aims, Principles and Policies. We have incorporated the basic practices of Decentralized Management. Job descriptions and new assignments of duties and responsibilities are in effect. Working Committees in various phases of our business are also functioning.

Our regional, district and store managers in the field will have more freedom to exercise their own initiative. Although we will continue to aggressively promote sales volume, the primary emphasis will be on the requirement for developing a satisfactory profit. We are confident that the effects of these positive changes will produce a better performance in the years ahead.

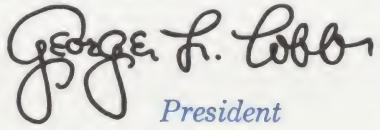
Of the 23 new store locations approved by the Board, we are negotiating to open 15 in 1959 and will effectively improve selling facilities in 12 existing stores, at a total capital expenditure in 1959 of approximately $9,500,000. The majority of the new stores will be located in shopping centers in keeping with the most modern trends in retailing. Our store fixtures will be clean cut, modern, functional, and noticeably lower in cost. The new store exteriors will include both a ready means of Company Identification and an inducement for Customer Acceptance.

In merchandising, our buying concepts have been reorganized and our staff has been greatly strengthened. Our advertising and sales promotion programs will be definitely broadened. We will definitely provide our stores with expanded assortments of merchandise with proper emphasis on soft goods and home furnishings, which represent an outstanding sales opportunity because of the national birth rate and population trends. Consumer credit is currently being tested for possible further development in other stores.

New warehouses for the distribution of merchandise are being erected at strategic locations across the country to provide greater savings in buying, bulk shipping and a more profitable inventory turnover and inventory control. This will permit a greater utilization of store space for selling.

Our public relations program will be designed to strengthen our contacts with our personnel, resources, customers and the general public. We recognize the necessity of cooperating with many other interests in building a better business climate.

Our improved and aggressive organization, the expansion that will take place in our store locations and facilities, and our broader assortment of merchandise are three major factors which enable us to look ahead with confidence.



President

S. H. KRESS and Company

Statement of Income and Retained Earnings

	Year Ended December 31st 1958	Year Ended December 31st 1957
Sales	$159,357,226	$158,570,785
Gain on sales of real estate	324,010	—
Other income	631,397	700,640
	160,312,633	159,271,425
Cost of merchandise sold and operating expenses	142,102,303	136,408,018
State, local and miscellaneous taxes	4,170,021	4,272,785
Depreciation and amortization	3,563,043	3,168,457
Employees' retirement pension plan	716,260	651,947
Interest expense	242,783	99,875
	150,794,410	144,601,082
Net Income before Federal taxes on income	9,518,223	14,670,343
Provision for Federal taxes on income	4,700,000	7,540,000
Net Income	4,818,223	7,130,343
Retained Earnings, January 1st	54,641,060	52,262,385
	59,459,283	59,392,728
Dividends paid—$2.00 per share	4,751,458	4,751,668
Retained Earnings, December 31st	$ 54,707,825	$ 54,641,060

See notes to Financial Statements

S. H. KRESS and Company

Statement of Financial Position

	December 31st 1958	December 31st 1957
CURRENT ASSETS		
Cash	$ 8,834,165	$ 9,220,530
Accounts receivable, less allowance for doubtful accounts	296,428	—
Inventories of merchandise, including merchandise in transit, at lower of cost or market	30,752,299	33,601,326
Total current assets	39,882,892	42,821,856
LESS CURRENT LIABILITIES		
Accounts payable — trade creditors and merchandise in transit	7,706,595	5,325,611
Accrued salaries and expenses, and miscellaneous accounts payable	6,193,403	6,668,359
Federal taxes on income	4,156,457	6,445,267
Total current liabilities	18,056,455	18,439,237
WORKING CAPITAL	21,826,437	24,382,619
OTHER ASSETS	1,268,274	1,128,356
CAPITAL ASSETS		
Fixtures and equipment, less accumulated depreciation of $17,480,455 and $16,983,537.	16,058,948	14,857,521
Buildings and improvements on leased properties, less accumulated amortization of $13,456,464 and $12,893,441	14,549,330	14,249,781
Land and buildings, less accumulated depreciation of $19,930,058 and $18,908,350	50,589,451	49,614,459
Total capital assets	81,197,729	78,721,761
EXCESS OF ASSETS OVER LIABILITIES	$104,292,440	$104,232,736
STOCKHOLDERS' EQUITY		
Common stock $10 par value—authorized 3,000,000 shares; issued 2,381,734 shares	$ 49,710,193	$ 49,710,193
Earnings retained for use in the business	54,707,825	54,641,060
	104,418,018	104,351,253
Less: Cost of common stock reacquired—6,110 shares and 5,900 shares	125,578	118,517
	$104,292,440	$104,232,736

See notes to Financial Statements

Notes to Financial Statements

NOTE 1:
An employees' restricted stock option plan was approved in 1958. Under the plan the Company is authorized to issue options to purchase 125,000 shares of common stock at not less than 95% of the fair market value on the date granted. The options are not exercisable until one year after the date granted and no option period shall exceed ten years.

During the year options were granted to six employees for an aggregate of 59,000 shares of stock at purchase prices of $31.60 for 25,000 shares, $35.00 for 21,000 shares and $40.85 for 13,000 shares. None of the options were exercisable as of December 31, 1958.

The option for 5,900 shares that was outstanding at December 31, 1957, terminated without being exercised.

NOTE 2:
At December 31, 1958, the Company was obligated under 131 leases expiring after December 31, 1961, some of which require, in addition to the minimum rentals now being paid, payments of additional rentals based on sales, and payments of real estate taxes, maintenance and insurance. The aggregate amount charged against operations for the year 1958 under all leases was $3,112,000.

Auditors' Opinion

TO THE STOCKHOLDERS OF S. H. KRESS AND COMPANY:

In our opinion, the accompanying statements of financial position and of income and retained earnings present fairly the financial position of S. H. Kress and Company at December 31, 1958, and the results of its operations for the year, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year. Our examination of these statements was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

New York, N. Y.
February 16, 1959

PRICE WATERHOUSE & CO.

Source and Application of Working Capital

	Year Ended December 31st 1958	Year Ended December 31st 1957
FUNDS BECAME AVAILABLE FROM		
Net income	$ 4,818,223	$ 7,130,343
Depreciation and amortization charged against income but not involving withdrawal of funds	3,563,043	3,168,457
Bank loans	12,000,000	11,000,000
Sales of capital assets	833,191	—
	21,214,457	21,298,800
FUNDS WERE APPLIED TO		
Capital expenditures	6,872,202	10,919,817
Dividends—$2.00 per share	4,751,458	4,751,668
Repayment of bank loans	12,000,000	11,000,000
Changes in other assets, net	146,979	(220,181)
	23,770,639	26,451,304
Decrease in working capital	2,556,182	5,152,504
Working capital beginning of year	24,382,619	29,535,123
Working capital end of year	$21,826,437	$24,382,619

S. H. KRESS and Company **Ten-Year**

All figures expressed in dollars except as otherwise indicated	1958	1957	1956
Sales	159,357,226	158,570,785	167,635,545
Number of stores	262	261	260
Average sales per store	608,234	607,551	644,752
Net income before federal taxes on income	9,518,223	14,670,343	16,918,165
Provision for federal taxes on income	4,700,000	7,540,000	8,660,000
Net income	4,818,223	7,130,343	8,258,165
Federal, state and local taxes *	8,870,021	11,812,785	12,766,973
Wages, salaries, and employee benefits *	35,211,512	34,197,989	34,469,304
Percent earned on sales before federal taxes on income	6.0	9.3	10.1
Percent earned on sales after federal taxes on income	3.0	4.5	4.9
Per common share:**			
Net income before federal taxes on income	4.01	6.17	7.12
Federal taxes on income	1.98	3.17	3.64
Net income	2.03	3.00	3.48
Dividends	2.00	2.00	2.50
Total assets	122,348,895	122,671,973	119,563,026
Stockholders' equity	104,292,440	104,232,736	101,854,061
Stockholders' equity per common share	43.90	43.87	42.87
Cash and government securities	8,834,165	9,220,530	17,118,809
Inventories	30,752,299	33,601,326	30,125,279
Working capital	21,826,437	24,382,619	29,535,123
Land, buildings, fixtures & equipment–at cost	132,064,706	127,507,089	117,102,770
Land, buildings, fixtures & equipment–less depreciation	81,197,729	78,721,761	70,970,401
Depreciation and amortization	3,563,043	3,168,457	2,850,579
Capital additions	6,872,000	10,920,000	6,358,000
Common stock–number of shares outstanding	2,375,624	2,375,834	2,375,834
Common stock–number of stockholders	11,405	11,704	11,651
Dividends paid	4,751,458	4,751,668	5,939,585
Retained net income	66,765	2,378,675	2,318,580

*includes social security taxes
**based on number of shares outstanding at end of each year

Statistical Comparison

1955	1954	1953	1952	1951	1950	1949
167,896,337	169,416,847	172,979,646	176,241,576	172,390,827	161,657,149	163,923,437
262	264	262	260	259	259	256
640,826	641,730	660,228	677,852	665,602	624,160	640,326
18,307,419	17,446,217	18,906,294	19,090,842	20,111,936	20,946,641	16,148,204
9,250,000	9,100,000	9,880,000	9,950,000	10,100,000	8,900,000	6,100,000
9,057,419	8,346,217	9,026,294	9,140,842	10,011,936	12,046,641	10,048,204
13,217,950	13,010,769	13,678,904	13,805,892	14,000,026	12,409,418	9,433,444
34,309,752	34,880,118	34,888,456	35,660,085	34,380,194	31,262,441	30,867,634
10.9	10.3	10.9	10.8	11.7	13.0	9.9
5.4	4.9	5.2	5.2	5.8	7.5	6.1
7.70	7.34	8.04	8.12	8.55	8.90	6.86
3.89	3.83	4.20	4.23	4.29	3.78	2.59
3.81	3.51	3.84	3.89	4.26	5.12	4.27
3.00	3.00	3.00	3.00	3.00	3.00	3.00
119,026,656	116,639,240	114,920,805	112,904,490	110,496,366	106,039,655	97,790,645
99,535,481	97,605,564	95,151,179	93,179,909	91,094,089	88,137,176	83,145,557
41.89	41.08	40.46	39.62	38.74	37.48	35.36
17,482,547	22,825,850	23,191,160	24,714,691	25,902,101	24,582,843	26,745,784
30,629,732	30,117,437	31,269,668	29,539,817	29,176,614	32,064,210	24,787,162
30,237,882	33,967,241	34,861,092	35,383,800	35,787,830	38,965,018	37,073,009
112,950,504	105,807,589	100,226,708	95,337,329	91,631,319	85,296,604	80,405,799
68,311,219	62,887,443	59,369,031	56,628,875	54,542,204	48,228,317	45,013,925
2,604,050	2,471,447	2,334,557	2,199,290	2,018,428	2,236,228	2,161,026
8,719,000	5,823,000	5,141,000	4,663,000	6,769,000	5,489,000	3,131,000
2,375,834	2,375,834	2,351,674	2,351,674	2,351,674	2,351,674	2,351,674
11,126	10,035	9,174	9,065	8,861	8,665	8,852
7,127,502	7,090,772	7,055,022	7,055,022	7,055,022	7,055,022	7,055,022
1,929,917	1,255,445	1,971,272	2,085,820	2,956,914	4,991,619	2,993,182

S. H. KRESS and Company, 114 Fifth Avenue, New York, N. Y.